

DOWNTOWN AUSTIN PLAN PHASE ONE

DOWNTOWN AFFORDABLE HOUSING STRATEGY

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HR&A Advisors ROMA Austin

CONTENTS

Executive Summary	2
Introduction	9
Downtown Overview	11
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Vision for Downtown Housing	22
Recommended Policy Framework	30
Conclusion	56
Sources and Notes	57
Appendix: Approved City of Austin GO Bond Projects	59

EXECUTIVE SUMMARY

Purpose of the Plan

The City's Downtown is an essential contributor to the pursuit of Austin's goal to become the most livable city in the United States. The City commissioned the Downtown Austin Plan, which will propose strategies to ensure that Downtown's revitalization contributes to the City's growth, translating new investment into a variety of tangible public benefits, including affordable housing. As part of this effort, the ROMA/HR&A Team developed the Downtown Affordable Housing Strategy for the City that seeks to:

1. **Create a vision for the mix and character of housing** in Downtown Austin that can be realized as Downtown grows and evolves over time,
2. **Set goals and targets for realizing this vision**, based on a realistic assessment of opportunities and constraints, and
3. **Recommend the short- and long-term strategies** that the City and its partners can use as Downtown develops to meet these targets.

A review of affordable housing policies and efforts was conducted from November 2008 through April 2009. This included consultations with City and State officials, affordable housing stakeholders, representatives of the development community and other interested parties; research into Austin's current conditions and policies; a survey of best practices in affordable housing elsewhere in the United States; and culminated in a Town Hall Meeting in May 2009.

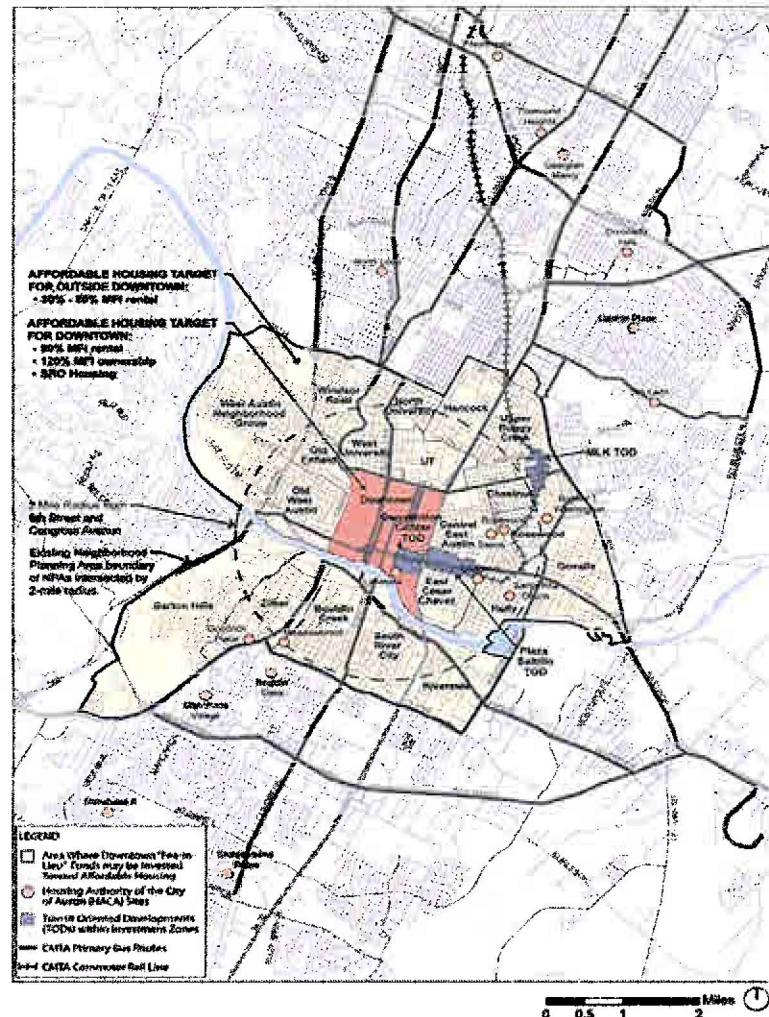
Downtown Overview

Area Boundaries

The "Downtown" (project study area) and a broader "Housing Fee Investment Area" should be considered for an affordable housing strategy. The Downtown (IH 35 to Lamar Blvd., MLK Blvd. to Lady Bird Lake) and the Housing Fee Investment Area surrounding it (neighborhoods within two miles of Sixth Street and Congress Avenue) contain roughly 200,000 Austin residents and 80,000 occupied housing units.¹ These areas are already transit-accessible and will be more so, once future infrastructure improvements are made and therefore are relevant target areas for providing a mix of housing that will support a vibrant daytime and nighttime downtown. Downtown also contains a large number of hard-to-serve residents, including a homeless population proximate to social services.

¹ See full report text for references.

Affordable Housing Fee Investment Area Map



Housing Characteristics

There is an affordable housing gap for low-income residents in Austin. The 2009 Austin Housing Market Survey found a city-wide gap of more than 48,000 units for those earning at or below 30% of median family income (MFI), and a gap of 15,000 affordable ownership opportunities for households earning at or below 50% of MFI. Many existing affordable units are substandard in quality; the majority of privately-owned, non-subsidized affordable housing is in older housing stock.

Subsidized housing is more costly to create Downtown, particularly in high-rise buildings. High-rise construction, demands for on-site parking, and higher land values make the construction of affordable units in Downtown considerably more expensive than in other parts of the City.

Market Trends

Most Downtown workers cannot afford to live in Downtown. City-wide, workforce housing is available, but it is more difficult to find affordable housing there. In 2000, only one-third of owner-occupied homes in Downtown were affordable to households with incomes at or below 120% of MFI. From 2000 to 2008, average single-family home prices in Downtown increased by more than 60%, and average condo sales prices grew by nearly half.

Downtown is becoming less affordable. New housing has begun to make the Downtown less affordable and therefore less diverse. Recent condo buyers have had higher incomes and fewer household members than the average existing Downtown household, suggesting changing demographics and declining affordability in the downtown.

Vision for Downtown Housing Strategy

Importance of a vibrant Downtown: The economic and environmental health of the region depends on the continued health and vitality of the downtown, which expresses the unique Austin character, like no other place in the region. The CBD provides the most sustainable opportunity for regional growth; it is the natural gathering place of the community, and its unique character and culture contribute to the Austin's success in attracting "creative class" businesses.

Key components of a vibrant downtown: The Downtown Austin Plan focuses on ensuring that key components of a vibrant downtown are produced as Austin grows and that an appropriate balance is maintained between these components. These components include:

- Transit accessibility
- Active retail
- Arts, culture and entertainment
- Adequate parking in centralized locations or structures
- Diversified employment
- High-quality parks and open spaces

Mix and character of Downtown housing: Ensuring that the supply of housing provides opportunities for a diverse mix of Austinites to live Downtown is crucial to supporting each of the components described above. Housing should be available *within* or *in proximity* to Downtown, in order to support use of public transit, to provide housing within proximity to employment centers and to provide an adequate market base for retail, arts, culture and entertainment uses. This housing should be available to:

- A range of income groups, including those able to pay market rent or sales prices, "workforce" income groups (80% MFI), very low- and low-income groups (less than 50% MFI), as well as special needs residents.
- A range of family types, including singles and small families as well as larger families, should they seek to live Downtown.
- A range of lifestyles, including Downtown workers and those active in the creative community.

Balance affordable housing with sought-after, responsible Downtown development. The Downtown is in a critical stage of growth as a mixed-use community. Although it has grown substantially in the last decade, adding 8,000 units and increasing resident population by 18%, Downtown Austin remains in the lowest third of southern and western cities in terms of population density per square mile of the CBD (Central Business District), and land prices remain substantially lower than other cities. Housing policies should be carefully crafted, so as not to interfere with the creation of dense and vibrant Downtown development, including commercial development to provide jobs and market residential development to enhance the tax base and local purchasing power.

Options for action. In the context of this vision, the Team examined three options for action:

1. **No Action:** Austin's current policies seek to: streamline the development process through S.M.A.R.T. Housing, reduce operating costs through economic development grants and lower the cost of development through bond funding and public land disposition. In a "no action" scenario, Austin would continue to use these policies, largely on a project-by-project basis, to encourage affordable housing Downtown. However, this review found that these policies apply to the Downtown in a very limited way and have not produced significant results. Most notably, current policies have not produced workforce housing for those at higher income levels to live Downtown.
2. **Limited:** In the short-term, there are a limited number of policy and funding options available to the City to create affordable housing. The City can leverage additional public land, where feasible; explore opportunities to buy down existing market-rate units for long-term affordability; acquire and reposition foreclosed properties; and continue to subsidize housing for very low- to moderate-income households. The City can also adopt a permanent downtown density bonus, which will contribute to meeting, but not fully addressing Austin's goals for affordable housing.

3. **Aggressive:** In the long-term, the City could create a comprehensive policy framework to:

- Use **public funding** to leverage institutional and private financial resources,
- Create a **comprehensive financing system** enabling developers to layer incentives and resources from a variety of public, private and non-profit entities to make deals with affordable housing successful, and
- Redirect a portion of the value produced by future growth into affordable housing.

The Team recommends that the City adopt a combination of Limited and Aggressive actions for Downtown and its adjacent neighborhoods, using direct subsidy and public land policies in the short-term and developing a comprehensive financing system in the long-term that will leverage the value from development as Austin grows.

Goals and Strategies

To increase affordable housing opportunities, we recommend the City adopt the following goals for Downtown and the surrounding Housing Fee Investment Area. (See map above.)

The Downtown and the suggested Housing Fee Investment Area should provide housing opportunities for an array of Austin households. These opportunities should be accessible by transit and proximate to appropriate amenities. A predictable and transparent system of regulations and incentives should be established and public-private partnerships created to encourage greater income diversity than currently exists Downtown.

Goals for the Downtown area should address workforce housing (80-120% MFI) and supportive housing for special needs populations. Workforce housing will provide desired income diversity in the increasingly dense Downtown, while making efficient use of scarce housing subsidy resources in a high cost environment. The City should also increase the supply of permanent supportive housing opportunities in the Downtown to accommodate hard-to-serve populations, particularly the chronically homeless.

1. **Ensure that 10% of new housing created in Downtown by 2020 is affordable to Austin's workforce. Assuming the Downtown population reaches 25,000 people by 2020, this would recommend creating a minimum of 1,440 units:**

- 720 rental units affordable to families earning 80% of MFI, and
- 720 ownership units affordable to families earning 120% of MFI.

2. **Double the number of privately-operated supportive housing units in the City.** Given the competition for resources and the complexity of delivering this product, we believe this goal of creating 170 new supportive housing units is aggressive but achievable.

	New Workforce Units by 2020	Subsidy Per Unit	Total Subsidy
Rental	720	\$90,000	\$65 million
Ownership	720	\$150,000	\$110 million
TOTAL	1,440 units		\$175 million
	New Units in 5 Years	Subsidy Per Unit	Total Subsidy
Supportive Housing Units	170	\$200,000	\$34 million

Affordable housing in the neighborhoods immediately adjacent to Downtown (Housing Fee Investment Area) should address the needs of very low, low and moderate income households (0 - 80% of MFI). The lower cost of creating affordable housing outside Downtown, coupled with the transit accessibility of Downtown, makes the Housing Fee Investment Area a fiscally-prudent alternative to meeting all of the Downtown's affordable housing needs within the Downtown proper.

3. **Produce very low-, low- and moderate-income units in proportion to Downtown and the Housing Fee Investment Area's share of Austin's housing stock.**

- Rental units affordable to families earning below 60% of MFI.
- Ownership units affordable to families earning below 80% of MFI.

Recommended Strategies

Target Workforce Housing in the CBD

1. Create or adapt a Downtown Workforce Housing Corporation to provide centralized funding and administration for Austin's workforce housing programs Downtown.
2. Develop an intergovernmental strategy for public land disposition and development, targeting 20% workforce affordability for any residential development that occurs on public land.
3. Create a revolving loan fund administered by the Downtown Workforce Housing Corporation. Capitalize the fund with public sources, including the proposed Downtown Density Bonus Program's housing fee proceeds and public low-interest bond funding.
4. Expand the public fees that are eligible to be waived by the S.M.A.R.T. Housing program, coordinating across public agencies to identify opportunities.
5. Provide economic development grants as-of-right to workforce housing units Downtown.
6. Explore opportunities to buy down existing market-rate units for long-term affordability.

Funding Sources

1. Create or adapt a non-profit Community Development Financial Institution (CDFI) to support workforce housing and leverage investment from other sources. Gain status for the Downtown Workforce Housing Corporation or develop a CDFI subsidiary of the Corporation.
2. Use public capital to seed the Corporation's programs and loan funds, including possible additional General Obligation Bond funding.
3. Implement a permanent Downtown Density Bonus Program, and dedicate in-lieu housing fees collected from the Program to capitalize the workforce housing financing system.
4. Seek private and foundation partners, including significant Downtown employers, banks with Community Reinvestment Act (CRA) obligations, and development of a non-profit intermediary system, to provide capital for long-term programs.

Target Very Low- and Low-Income Housing in the Housing Fee Investment Area and in the Downtown where feasible:

1. Continue using Austin Housing Finance Corporation (AHFC) to subsidize very low- and low-income housing, including direct public subsidy.
2. Build a model Single Room Occupancy (SRO) project Downtown to demonstrate best practices in supportive housing development and operation.
3. Support the Housing Authority of City of Austin (HACA), redevelopment efforts to increase very low-income and create low- and moderate-income housing by intensifying HACA-owned sites, including the eight sites in Downtown and the Housing Fee Investment Area. (The Team's initial analysis suggests that HACA could produce 3,500 units in addition to the units presently on these sites within maximum allowable densities of their existing zoning.)
4. Provide full property tax abatements and/or economic development grants as-of-right to affordable units in the Housing Fee Investment Area.
5. Seek private and foundation partners, including significant Downtown employers, banks with CRA obligations, and the development of a non-profit intermediary system to provide capital for long-term programs.

INTRODUCTION

Downtown Austin Plan

The City of Austin is committed to making Austin the most livable city in the United States. City policies seek to:

- Promote a rich social and cultural community.
- Build a vibrant urban fabric.
- Create a healthy and safe city.
- Promote sustainable economic development and public health.

The City's Downtown is an essential contributor to the pursuit of these goals. In part to harness the potential of Downtown's substantial growth, the City commissioned a Downtown Plan. The plan will propose strategies to ensure that Downtown's revitalization contributes to the City's growth, translating new investment into a variety of tangible public benefits, including affordable housing.

The initial planning phase recommended that the City create a Downtown affordable housing and density bonus strategy. Those specific recommendations are summarized in the figure at right. Conclusions from the first phase of the Downtown Austin Plan informing the affordable housing strategy were as follows:

- The lack of Downtown affordability and recent construction of substantial numbers of luxury residential units has created a desire to ensure that Downtown evolves as a mixed-income community. However, the cost of creating affordable units Downtown is prohibitive without market intervention. ***Downtown should continue to***

Recommendations, Downtown Austin Plan Phase I (2/2008)

- Create development standards to promote better urban form and place-making.
- Plan for growth and development district-by-district to recognize the specific needs and goals of each area within Downtown.
- Create a master plan for parks and open spaces.
- Promote entertainment and "creative community" uses Downtown.
- Create an affordable housing strategy tailored to the particular needs of Downtown.
- Create an implementation strategy that enables exploration of funding sources for public improvements.

house a diverse community as it grows. Austin should structure a transparent, predictable set of incentives to encourage the creation of community benefits for Downtown, including affordable housing. Incentives should include a density bonus program to replace CURE, in order to create a single administrative path to increased density. ***A density bonus and other incentives can help to shape Downtown's future positively.***

- The Downtown Affordable Housing Strategy should set goals and examine an array of tools to generate housing Downtown for a mix of incomes, including the density bonus, tax abatements and the use of publicly-owned land. ***Create a housing strategy tailored to Downtown.***

Approach

The City commissioned this policy review to inform specific recommendations for an Affordable Housing Strategy and a Density Bonus Program. This review included the following components:

- I. Evaluation of Austin's existing affordable housing policies and their applicability to Downtown housing.
- II. Assessment of Austin's goals for Downtown housing and the cost of achieving those goals.
- III. Survey of affordable housing programs in comparable cities across the United States, and comparisons of Austin's policies and results to those of comparable cities.
- IV. Consultations with City and State officials, affordable housing stakeholders, representatives of the development community and other interested parties.
- V. Recommendations for goals for Downtown housing, specific targets related to the goals and estimates of the timeline and cost of achieving the targets.
- VI. Recommendations on policy tools to be adapted and/or implemented to achieve targets in the most cost-effective and fair manner.

The review was conducted in tandem with a study of the potential for a Downtown density bonus to generate community benefits, including affordable housing. Together, the Downtown Density Bonus Program and Downtown Housing Strategy provide Austin with a broad vision, and specific policy recommendations, to establish short- and long-term policy in these areas.

Study Timeline

January 2009: Affordable Housing Stakeholder Consultations

May 2009: Density Bonus and Affordable Housing Joint
 Commissions Meeting
 Town Hall Meeting

July 2009: Final Recommendations

DOWNTOWN OVERVIEW

The housing strategy should address both the Downtown and the immediately surrounding, more affordable areas.

Policy goals should be established for the Downtown and for the Neighborhood Planning areas within approximately a two-mile radius of Downtown. In those adjacent neighborhoods, transit is relatively accessible and will continue to develop as regional and local transportation projects are constructed. These neighborhoods were designated as a "Downtown Impact Area" by the Interim Density Bonus Ordinance. Therefore, goals are suggested for both the Downtown and this area, which the Team suggests renaming for greater clarity as the "Housing Fee Investment Area".

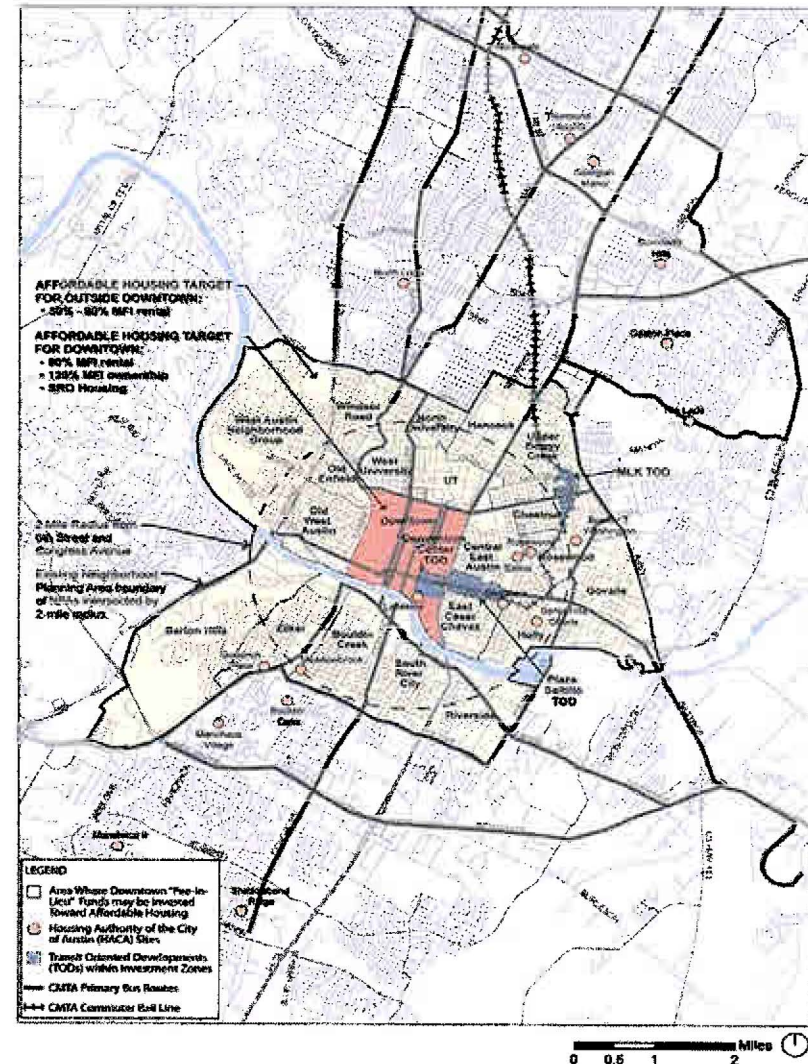
Downtown boundaries:

- IH 35 to Lamar Boulevard
- MLK Boulevard to Lady Bird Lake

Housing Fee Investment Area boundaries:

- Neighborhood planning areas for which any land area falls within a two-mile radius of Sixth Street and Congress Avenue.

Map of Housing Fee Investment Area



Demographic Characteristics

Households in the Downtown tend to be smaller with higher incomes than those in the surrounding Housing Fee Investment Area.

In 2000, the Downtown contained approximately 3,780 individuals in 1,745 occupied housing units. The Housing Fee Investment Area contained approximately 178,780 individuals in 74,380 occupied housing units.

Median household income in the Housing Fee Investment Area was slightly higher than median income in the Downtown in 2000 (\$40,000 versus \$36,000).² However, median household income in the Downtown increased to nearly \$45,000 between 2000 and 2007.³

Households in the Housing Fee Investment Area are larger than those in the Downtown, on average, with 2.24 individuals per household compared to 1.51 individuals per household in the Downtown.⁴

Downtown residents were more likely to be white than residents in the Housing Fee Investment Area in 2000, while Housing Fee Investment Area residents were more likely to be Hispanic.⁵

Racial Composition, 2000

	Downtown	Housing Fee Investment Area
White	67%	54%
Hispanic	15%	32%
African American	10%	7%
Asian	4%	5%
Other	4%	2%

² HR&A analysis of 2000 Census data. Housing Fee Investment Area is approximated as zip codes 78702, 78703, 78704, 78705, 78741, 78746.

³ HR&A Analysis of 2007 American Community Survey data.

⁴ HR&A analysis of 2000 Census data.

⁵ HR&A analysis of 2000 Census data.

Downtown contains a large number of hard-to-serve residents, including a homeless population proximate to social services.

There are an estimated 3,760 homeless individuals in Austin at any one time with about 600 individuals characterized as chronically homeless. Despite the needs for transitional and supportive housing, there are only 100 shelter beds and 85 units of single-room occupancy housing units Downtown.⁶ Citywide, there were only 340 units of privately-operated supportive housing in 2008.⁷

Other hard-to-serve populations lack sufficient options for housing accompanied by appropriate services. There are an estimated more than 2,700 Travis County residents living with HIV/AIDS, a portion of which could benefit greatly from expanded housing options. In addition, the growing elderly population is likely to tax the supportive housing and assisted living resources currently in the City.⁸

There are three distinct challenges to building new supportive housing: the properties cannot typically support a permanent mortgage and, therefore, must assemble full capital funding; on-going rental subsidies and service funding are scarce; and there is no ongoing or predictable funding source. Some other cities dedicate a portion of Project-Based Section 8 subsidies to supportive housing projects to ensure deep affordability long-term. HACA, which allocates Section 8 subsidies, currently does not have such a policy.

“The combination of permanent affordable housing and support services [supportive housing] is seen as key to providing a stable environment in which individuals can address the underlying causes of their homelessness - at far less cost than placing them in a shelter or treating them in a hospital.”⁹

⁶ NHCD 2005-2009 Consolidated Plan.

⁷ *Ending Chronic Homelessness*. National Community Development Association, 2007.

⁸ NHCD 2005-2009 Consolidated Plan.

⁹ *The Impact of Supportive Housing on Surrounding Neighborhoods: Evidence from New York City*, Furman Center for Real Estate and Urban Policy, November 2008.

Housing Characteristics

There is an affordable housing gap for low-income residents in Austin.

Affordability: The 2009 Austin Housing Market Survey found a city-wide gap of more than 48,000 units for those earning at or below 30% of median family income (MFI). The study also found a gap of 15,000 affordable ownership opportunities for households earning at or below 50% of MFI. Although housing prices increased significantly during the last real estate cycle, this city-wide gap analysis indicates that affordable housing options are available somewhere in the city for most Austinites with incomes above 30% of MFI.¹⁰

The overall average percentage of income spent on housing is below the standard set by the U.S. Department of Housing and Urban Development (HUD) of 30% of gross income. In 2007, Austin renters spent 27.3% of income on housing, while Austin homeowners spent 19.1%, well below HUD's housing affordability guideline.¹¹ However, Austin's Consolidated Plan for 2004-2009 identified 38% of residents that pay more than 30% of income for housing.¹²

However, high residential occupancy rates, particularly for Class B and C units, and increasing rents threaten this level of affordability. Occupancy rates for Class B and C hover near 100%, and rents increased for 11 consecutive quarters in recent years.¹³

HUD Affordability Definitions for Ownership, 2008

	% MFI (at or below)	Income for Single Person	Income for family of 4
Very Low	50%	\$24,900	\$35,550
Low	80%	\$39,850	\$55,280
Workforce	120%	\$59,760	\$82,920

HUD Affordability Definitions for Rentals, 2008

	% MFI (at or below)	Income for Single Person	Income for family of 4
Very Low	30%	\$14,950	\$21,350
Low	50-60%	\$24,900 - \$29,880	\$35,550 - \$41,460
Workforce	80%	\$39,850	\$56,900

¹⁰ Source: Preliminary findings of Affordable Housing Market Study, BBC Research, March 2009.

¹¹ HR&A Analysis of 2007 American Community Survey data.

¹² City of Austin Consolidated Plan 2004-2009.

¹³ *Preserving Affordable Housing in Austin*, City of Austin NHCD, April 2008.

Existing affordable units have quality problems.

The vast majority of affordable rental units in Austin are privately-owned. Austin's Affordable Housing Preservation Study found that the majority of privately-owned, non-subsidized affordable housing is in older housing stock, and most is Class C – with “fewer amenities, are found in poor locations, and are not well maintained”¹⁴ – or Class D – “generally older than 30 years and are typically marginally maintained or substandard”¹⁵. About 45% of Austin's housing stock was built prior to 1980, with the age of the stock compounded by environmental health hazards such as asbestos and lead-based paint.¹⁶ Older, affordable units will continue to deteriorate over time as rents are not sufficient to support capital investments by owners for renovations, and/or units will be rehabilitated and converted to market-rate units as market demand continues to grow.

¹⁴ *Preserving Affordable Housing in Austin*, City of Austin NHCD, April 2008.

¹⁵ *Preserving Affordable Housing in Austin*, City of Austin NHCD, April 2008.

¹⁶ *Preserving Affordable Housing in Austin*, City of Austin NHCD, April 2008.

City-wide, workforce housing is available, but it is more difficult to find affordable housing Downtown.

The Austin Housing Market Survey did not find a gap for households earning between 50% and 120% of MFI. Rather, Austin has a surplus of moderate-income and workforce housing across the City. However, affordable housing opportunities, particularly for homeownership, are significantly harder to find Downtown. To the extent that Downtown workers with workforce incomes would prefer to purchase homes Downtown, they have limited choices – in 2000, only one-third of owner-occupied homes Downtown were affordable to households with incomes at or below 120% of MFI.¹⁷ From 2000 to 2008, average single-family home prices Downtown increased by more than 60% and average condo sales prices grew by nearly half.¹⁸ The price points of the Downtown market significantly inhibit access of Downtown workers to homes in the Downtown.

¹⁷ HR&A analysis of 2000 Census data.

¹⁸ *Downtown Condominium Study*, Capitol Market Research for Downtown Austin Alliance, April 2, 2008.

Subsidized housing is more costly to create Downtown, particularly in high-rise construction.

High-rise building construction, demands for on-site parking, and higher land values make it more expensive to provide affordable units Downtown.

- Per square foot construction costs for high-rise construction are more than 20% higher than for mid-rise construction Downtown.
- Per square foot construction costs for mid-rise construction Downtown are more than 15% higher than similar construction outside Downtown.

Likely stabilization in construction cost escalation due to current economic conditions is unlikely to affect the relative gap between mid-rise and high-rise construction costs, as both labor and material costs are likely to stabilize, given the current market conditions nationwide, reducing costs of various types of construction.

Higher land prices and more the more costly structured parking typical of Downtown development also make mid-rise construction more costly than outside Downtown. The subsidy required to create an affordable unit Downtown is and will remain substantial.

Typical Construction Costs by Building Type (per square foot)

	High-Rise	Mid-Rise	Low-Rise
Hard Cost	\$270	\$230	\$200
Soft Cost	\$60	\$40	\$30
Total Construction Cost	\$330	\$270	\$230

**Required Public Subsidy by Building Type (per unit):
120% MFI Ownership**

	High-Rise Downtown	Mid-Rise Downtown	Mid-Rise Outside Downtown
Price for 1,000 SF Unit	\$375,000	\$300,000	\$225,000
Supportable Mortgage	\$150,000	\$150,000	\$150,000
Required Subsidy	\$225,000	\$150,000	\$75,000

**Required Public Subsidy by Building Type (per unit):
80% MFI Rental**

	High-Rise Downtown	Mid-Rise Downtown	Mid-Rise Outside Downtown
Total Rent for 1,000 SF	\$1,750	\$1,600	\$1,250
Value of Rent	\$1,067	\$1,067	\$1,067
Required Subsidy	\$110,000	\$90,000	\$30,000

Austin has a vigorous and active housing authority with land and resources.

HACA, the Housing Authority of the City of Austin, manages 991 public housing units on eight properties in the Housing Fee Investment Area¹⁹, in addition to managing more than 5,000 Housing Choice (formerly Section 8) rental vouchers city-wide. HACA has a diverse set of activities that it uses to fund its operations and hopes to use to further expand its activities in Austin, including revenues from its nonprofit subsidiary, Southwest Housing Compliance Corporation, which manages Project-Based Section 8 (developments with dedicated Section 8 vouchers) properties in Texas and Arkansas.²⁰

Intensification of existing, publicly-owned housing authority sites is an opportunity being pursued by housing authorities across the country, and provides a significant opportunity to make use of low-cost land, particularly for sites within proximity to downtowns. Analysis of zoning entitlements and surrounding context for the eight, HACA-owned properties within two miles of Downtown identified the potential to increase density and create more than 3,500 additional units on those eight properties alone.²¹

HACA also has opportunities to acquire additional properties at low cost through HUD's Direct Sales Program, which allows HACA the first right-of-refusal to purchase foreclosed properties with FHA-insured mortgages at a 30% discount.²² Although Austin's foreclosures to date have been relatively minimal during the current housing crisis, the number of units in foreclosure proceedings – more than 11,000 units in 2008²³ – presents opportunities nonetheless.

¹⁹ ROMA analysis of eight HACA-owned properties.

²⁰ Interview with Ron Kowal, Vice-President Housing Development, HACA.

²¹ ROMA analysis.

²² Interview with Ron Kowal.

²³ Source: RealtyTrac 2008 Foreclosure Market Report.

HACA-owned sites within 2 miles of Downtown could hold 3,500 additional units, if intensified to full zoning entitlements.

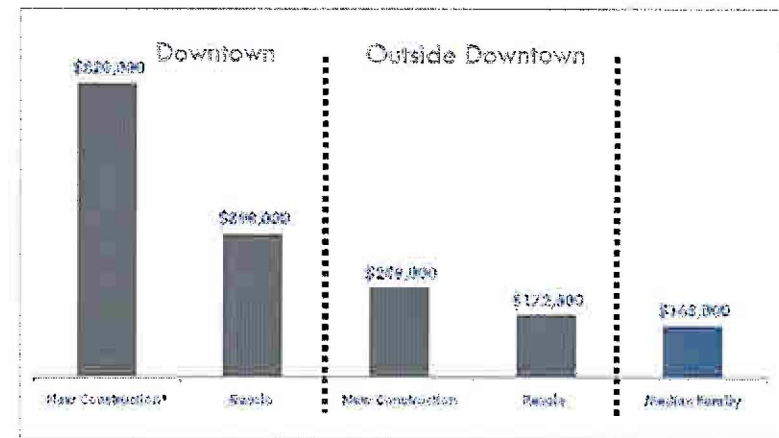
Market Trends

Downtown is becoming less affordable.

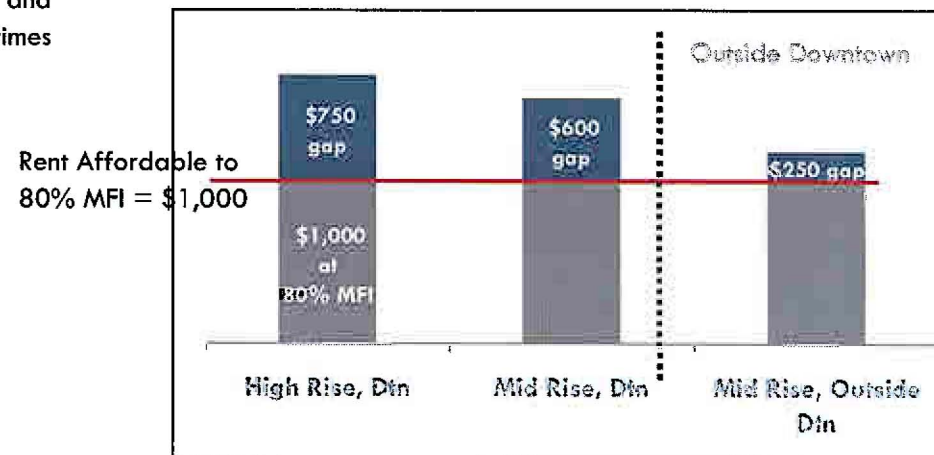
Only seven percent of Austinites can afford to buy a condominium Downtown.²⁴ The cost per unit of an average new luxury, high-rise condominium Downtown is approximately \$450,000, and new rental housing frequently exceeds two dollars per square foot Downtown (\$2,000 per month rent per average unit).²⁵

Low and moderate income families' housing options are mostly not Downtown. HR&A assessed the gap between the supportable housing cost of a family earning 80% of MFI and the cost of renting a high-rise apartment Downtown as \$683 per month, and for a family earning 120% of MFI, the cost of supporting a mortgage at \$225,000. Typical sales prices for new condo construction Downtown can run more than three times more than new construction outside Downtown. For new rental units, the gap between monthly rents and affordable workforce rents can reach \$750 per month, three times the typical monthly gap outside Downtown.

Typical Condo Sales Prices



Typical Rents Downtown



²⁴ Downtown Austin Plan Phase I finding.

²⁵ HR&A analysis of data from Downtown Condominium Study, Downtown Austin Alliance, Capitol Market Research.

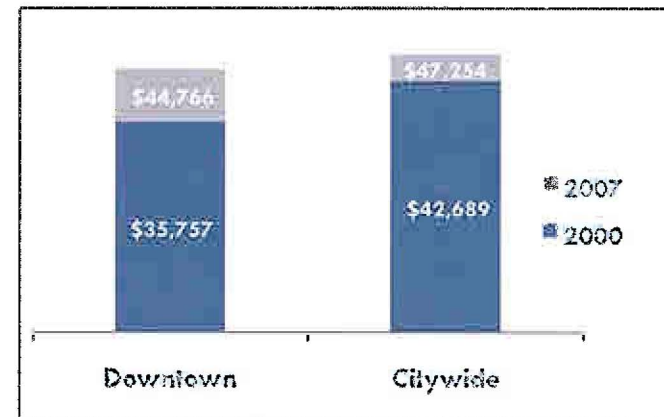
New housing has begun to make Downtown less affordable and therefore less diverse.

To date, Austin's Downtown population has been notably similar to the population city-wide, suggesting that the trend away from a mixed-income Downtown seen in many American cities are not pronounced at Austin's current stage of growth. However, recent demographic trends show marginal increases in household income Downtown and reductions in household size, potentially signaling the beginning of a trend toward a less affordable, less diverse Downtown.

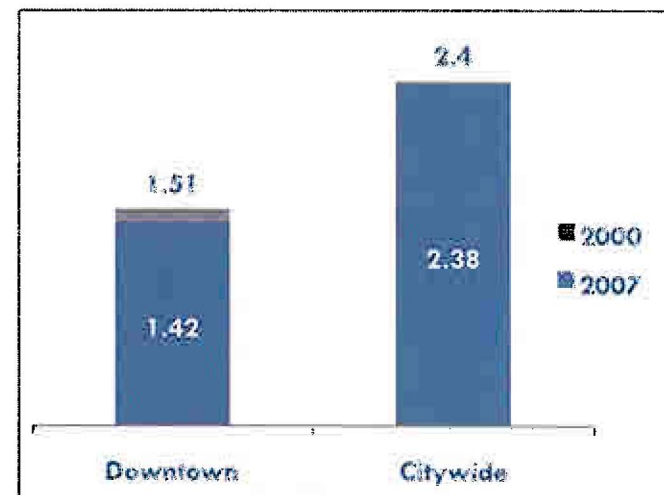
Recent condo buyers Downtown have varied on key characteristics.

One-quarter of recent condo buyers have been under 30 years of age, and 12 percent have been 60 years of age or older. Thirty percent of recent condo purchasers work Downtown, and nearly 70 percent of new purchasers were moving from another part of the Austin Metropolitan Area to Downtown.²⁶

Change in Median Household Income, 2000 - 2007



Change in Average Household Size, 2000 - 2007



²⁶ *Downtown Condominium Study*, Downtown Austin Alliance, Capitol Market Research, April 2008.

Employment Base

Most Downtown workers cannot afford to live Downtown.

Downtown hosts 67,000 daytime employees in the CBD, and 90,000 within a one-mile radius of 6th Street and Congress Avenue.²⁷ The average income of workers Downtown – approximately \$43,000²⁸ – cannot support market rents or sales prices Downtown,²⁹ and currently, only 30% of purchasers of new Downtown condo units work Downtown.³⁰ Downtown workers for whom housing opportunities would produce substantial benefits include:

- **Government Workers.** Nearly 1,300 public sector employees work Downtown. With an average annual salary of just over \$50,000 (approximately equal to MFI for an individual),³¹ most public sector employees are priced out of the new residential developments Downtown.
- **Creative Community.** Downtown employees who work as artists, musicians, designers, and the like comprise nearly 1,500 workers and have average annual wages near 30 - 40% of MFI.³²

²⁷ *Downtown Austin Plan*, ROMA and HR&A Advisors, 2008.

²⁸ EMSI employment data for zip code 78701, provided by the Capitol Area Council of Governments.

²⁹ HR&A analysis of data from *Downtown Condominium Study*, Downtown Austin Alliance, Capitol Market Research, April 2008.

³⁰ *Downtown Condominium Study*, Capitol Market Research for Downtown Austin Alliance, April 2008.

³¹ EMSI employment data.

³² EMSI employment data.

Providing housing for Downtown workers in or near Downtown produces a range of public benefits, from supporting Downtown's economic and cultural competitiveness to reducing the environmental impacts of commuting. Stakeholders expressed aspirations to maintain affordable housing and transportation costs for a set of groups to continue to live in or in proximity to Downtown.

Comparing Development Incentives Across Cities

City	Incentives Specifically for Housing Downtown?	Incentives for Special Populations?	Incentives for Low-Income?	Incentives for Work Force?
<i>New York</i>	Yes	Yes	Yes	Yes
<i>Chicago</i>	Yes	Yes	Yes	Yes
<i>Los Angeles</i>	No	Yes	Yes	Yes
<i>Houston</i>	No	Yes	Yes	No
<i>Portland</i>	Yes	Yes	Yes	No

Retail, Entertainment and Cultural Offerings

More than half of businesses Downtown appear to be locally-owned. From 2005 to 2007, the total amount of occupied retail space Downtown increased fourfold, from 61,883 square feet in 2005 to 254,567 square feet in 2007. However, Downtown still represents only about one percent of the total occupied retail space in Austin.³³

Austin is recognized as the “Live Music Capital of the World”, with Austin City Limits and South by Southwest (SXSW) drawing international acclaim. The music industry is an important economic sector to Austin and central to the identity and energy of Austin and Downtown, employing 5,600 people full-time and 13,000 others related to music-based tourism, and bringing \$420 million in annual sales, \$580 million in tourism revenue, and \$25 million in city taxes annually. Music accounts for over half of all other performing and visual arts income in Austin.³⁴

In addition to the music scene, Downtown is also home to a variety of cultural institutions and events, including art museums and galleries, theaters, and outdoor creative activities. The Long Center, the future central public library in the Seaholm District and the future Austin Museum of Art will further reinforce the role of Downtown as the cultural center of the region. The creative community or cultural sector as a whole employs about 44,000 full-time employees, and helps Austin attract and retain its young, creative population.³⁵

³³ Capitol Market Research, 2007.

³⁴ *The Role of the Cultural Sector in the Local Economy: 2005 Update.*

³⁵ *The Role of the Cultural Sector in the Local Economy: 2005 Update*

VISION

Providing for housing affordability should not impede sought-after, responsible Downtown development.

Downtown has grown substantially in the last decade and the mix of uses has diversified. As Downtown continues to grow in resident and worker population, density of built form, infrastructure and amenities, policy direction must ensure that healthy development Downtown continues.

- Downtown commercial development – including office, hotel and retail uses – must be a priority for Austin to remain vibrant and competitive with other business districts.
- Enhancing the quality of the resident and worker experience, supporting a vibrant character and high quality of streets, streetscapes, open spaces and retail frontages through physical improvements remains a priority:
 - Streetscape, open space and retail frontages attract visitors, residents and workers.
 - Entertainment will remain a competitive advantage for Austinites and a magnet for young, creative workers.
- Continuing to build mass transit infrastructure is a high priority, in order to support density, maintain overall affordability of living in Austin and reduce vehicle miles travelled.

Part of creating a vibrant, healthy Downtown is creating a mix of housing affordability. Cities across the country have acknowledged the need to produce units of housing for those who would otherwise be priced out of the market as urban centers grow and prosper. As density increases in a city core, land becomes scarcer, and therefore more costly, and construction costs increase, contributing to a higher overall cost per unit of housing developed. Austin is no exception to this trend, as the cost per unit of high-rise and mid-rise housing has increased substantially in the last decade.

Downtown is in a critical stage of growth as a mixed-use community.

Downtown has grown substantially in the last decade as a residential community, adding nearly 8,000 units and increasing resident population by 18 percent. However, Downtown population is still a small share of Austin's total population (less than one percent) and has not yet achieved the density per square mile of other southern and western cities. Austin ranks in the bottom third of southern and western cities in terms of population density per square mile of Downtown, and land prices remain substantially lower than other cities.

Austin's Downtown population density is:

- *1/2 of downtown Portland's*
- *1/8 of downtown Seattle's*

Downtown Austin's population density is on par with Jacksonville, Phoenix, Dallas and Fort Worth.

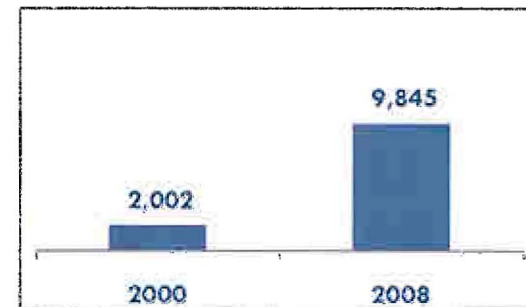
In its current stage of growth, density in Austin does not yet command the consistent real estate premium it does in other cities, owing to a relative abundance of land and lower real estate values. Despite the recent luxury condominium development Downtown, density does not provide a consistent source of market value for the government to leverage. A study of developments from 2002 to 2008 found that:

- 20 development projects Downtown between 2002 and 2008 used only 77% of entitled FAR.
- Only 45% of developments sought additional FAR under CURE, and of those granted, only 57% used it.³⁶

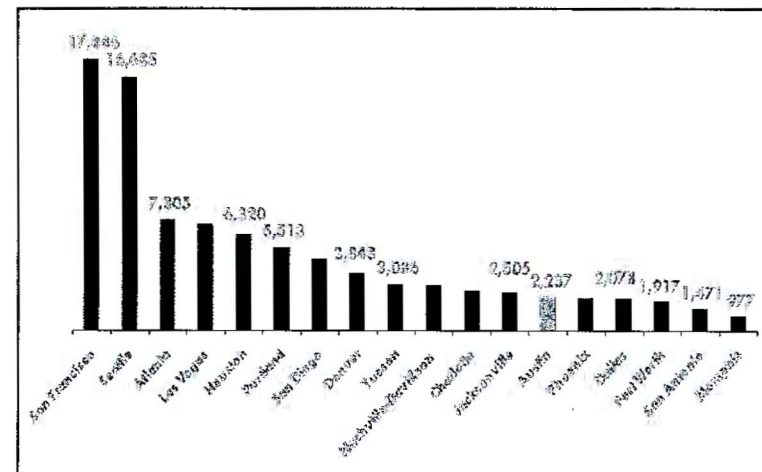
³⁶ ROMA study of Downtown FAR, sample of 7 developments built from 2002 - 2008.

This places Austin's mixed use Downtown in a stage of growth in which the economics of development are fragile and the balancing of objectives described below is critical.

Downtown Housing Units



Downtown Population Density



Policy Options: No Action

Current policies create affordable housing by streamlining the development process, reducing operating costs and subsidizing development costs.

Intervention to support development of affordable housing can come at a number of points in the development process, as illustrated in the following "Development Incentives" table.

Public support can reduce the time required to develop a project, reduce the cost of capital during construction or project operation, reduce the cost of development, increase revenue through additional project entitlements or increase an owner's operating margin through ongoing tax abatements and/or other subsidies.

Development Incentives

Incentive Affects...	Austin Policies Today	Workforce Income Housing?
Development Timing	S.M.A.R.T. Housing	No
Cost of Capital	G.O. Bond Funding Multi-Family Bond Program	No No
Development Cost	Public Land Disposition Fee Waivers Federal Entitlement Funding Low Income Housing Tax Credit	Yes No No No No
Entitlements	Density Bonus	Yes
Operating Margin	Economic Development Grants	No

A range of programs exist to subsidize affordable housing in Austin, with mixed results.

Austin has created a range of programs to support affordable housing. As Texas law does not allow mandatory inclusionary zoning requirements for either on-site or off-site affordable housing, programs are incentive-based. These include the programs in the following "Current Development Incentives" table.

Austin's Housing Finance Corporation (AHFC) supports low-income housing development through the use of federal entitlements.* In 2006, the City sold a General Obligation (GO) Bond of 55 million dollars and has dedicated the funds, approximately 10.5 million dollars per year, for low-income housing projects. The GO Bond Program by all accounts has been successful and is oversubscribed. Funding is focused on supporting very low- and low-income rental units. (See Appendix A for list of approved GO Bond projects.)

A limited number of programs apply to Downtown.

While S.M.A.R.T. Housing and fee waivers apply to Downtown and some public land has been or is being considered for disposition with affordable requirements, results have been limited. The following table shows the units that have been created Downtown as a result of public programs.

Current Development Incentives

Austin Incentive	Description	Results
S.M.A.R.T. Housing	Provides fee waivers and expedited approvals, in exchange for meeting increased affordable housing and other standards.	5,708 units
GO Bond Funding	Provides direct subsidy funding for development of very low- and low-income units.	435 units approved
Tax Increment Set-Aside from City-Owned Land	40% of incremental tax revenues from developments on land acquired by public land disposition are dedicated to affordable housing.	\$950,00 in fees
Economic Development Grants	Units receive a partial tax abatement in exchange for affordable units and other public benefits.	Domain and Robertson Hill (5-10 % affordable)
Interim Density Bonus Ordinance (2008)	In exchange for 10% of keeping bonused affordable or paying \$5-\$10 psf, developments receive additional FAR.	No units to date
Revised PUD Ordinance (2008)	To obtain Planned Unit Development zoning, at least 10% of rental units must be affordable at 80% MFI or 5% of for-sale units must be affordable at 80% MFI.	No units to date
Vertical Mixed use Overlay (2007)	To obtain increased FAR, reduced parking ratios, etc., 10% of all residential units in a residential project must be constructed on site for 80%-100% MFI for sale or for 60-80% rental.	No units to date
University Neighborhood Overlay (UNO)	To gain increased building heights, residential developments must make 10% of residential space affordable to families earning 80% MFI and 10% at 65% MFI, or pay a fee-in-lieu amounting to \$0.50 per square foot of rentable floor area in the development.	2,393 units \$1 m in fees
Rainey Street Ordinance (2005)	To obtain CBD zoning entitlements, developers must build 5% of all housing units in a residential project onsite at 80% MFI.	19 units
TOD Zoning Districts (2008)	To obtain increased FAR and relief from Compatibility Standards, at least 10% - 15% of the bonused residential area must be built for 80% - 100% MFI for sale or for 60 - 80% rental housing.	No units to date

Policy Options: Limited Action, Short-Term

In the short-term, there are a limited number of policy and funding options available to the City to create affordable housing. Over time, the City can build partnerships with public and private entities to increase funding options for a variety of affordable housing options at a variety of price points, including supportive housing for Austin's most vulnerable populations. In the short-term, the City can:

- Leverage public land, where feasible.
- Acquire and reposition foreclosed properties.
- Continue to subsidize housing for very low- to moderate-income households (80% of MFI and below, up to \$39,850 for an individual, \$55,280 for family of four).

New York City: Housing Trust Fund (HTF)

The HTF acts as a supplement to other existing funding sources for hard-to-reach populations – defined as households with incomes below 30% of MFI or between 61% and 80% of MFI. The HTF was created with \$130 million in lease revenues from the Battery Park City Authority and is projected to create or preserve 4,300 units of affordable housing over three years. Subsidies under the program range from \$20,000 to \$50,000 per unit, and are meant to bridge the gap between other readily available sources and the relatively higher costs of serving the targeted populations.

Policy Options: Aggressive Action, Long-Term

Public funding can leverage institutional and financial resources to build an affordable housing system.

Assuming public resources are fungible, the appropriate criteria for allocating limited resources to Downtown housing is that the maximum amount of desired housing is created for the minimum contribution of public resources. This suggests that the following types of programs should be created:

- Programs that leverage investments by non-profit and for-profit funding partners, including housing intermediaries, corporate and private foundations, and banks;
- Programs that incentivize investments in affordable housing by for-profit housing developers seeking a return on investment, including both non-monetary contributions of public resources (speedier approvals, waivers of regulatory requirements) and dedication of public funds to “prime the pump” for investment by a private developer;
- Programs that leverage federal and state resources; and
- Direct public subsidies in conditions where other programs would not incentivize development of units.

The density bonus for Downtown will contribute to meeting, but not fully address, Austin's goals for affordable housing.

There has been a limited market for additional development density Downtown. In January 2008, the Austin City Council passed an interim density bonus ordinance [Ordinance No. 20080131-132] that included provisions for Downtown. The bonus has not been used to date by any project, and although current economic conditions make this unsurprising, several developments have sought additional FAR under the CURE program since the passage of the ordinance. These developments have received significant increases in FAR in exchange for construction of "Great Streets" sidewalk improvements and/or Green Building – far less than what would have been required of these projects if they had participated in either the existing Interim Density Bonus Program or that proposed as the permanent Downtown Density Bonus Program.

Four projects have elected to achieve additional density through CURE instead of the adopted density bonus program.

The Downtown Austin Plan recommends adoption of a revised and permanent density bonus ordinance with a fee-in-lieu charge for residential development Downtown, wherein the proceeds generated could be used for an affordable housing trust fund and other public benefits.

The density bonus Downtown is an important component of a plan to create affordable housing, but will not on its own meet the challenge. A supportable fee-in-lieu charge of ten dollars per square foot of bonused density would produce \$30 million, assuming half of all "soft" (potential redevelopment) sites a quarter-block or more in size are developed over the next 15 to 20 years, and that half of those take advantage of a density bonus averaging a 3.0 FAR (floor area ratio) bonus. A good benchmark for evaluating the level of these proceeds is to measure it against the gross subsidy cost of creating workforce housing units, independent of other subsidies. Thirty million dollars would be sufficient to meet the gross subsidy cost of creating about 200 units of mid-rise affordable housing Downtown, independent of other incentives.

45% of new developments sought additional FAR under CURE, but only 57% of developments that were granted additional FAR used it.

On average, recent developments were built to only 77% of their total entitled FAR.

A Downtown density bonus fee could produce about \$30 million over 15 to 20 years, enough to produce about 200 units of mid-rise affordable housing Downtown.

A comprehensive financing system is an important tool to spur affordable housing development.

Financing affordable housing often involves layering a number of incentives and resources from a variety of public, private, and non-profit entities to make a deal successful. Austin's system of affordable housing finance needs additional financial instruments that can contribute to making the process of developing affordable housing more consistent, more robust and more comparable with other, more evolved, municipal financing systems. Conclusions on the adequacy of the existing affordable housing finance system in Austin to support workforce housing are as follows:

- Federal funding programs – such as Low-Income Housing Tax Credits (LIHTC), Community Development Block Grants (CDBG) and HOME grants – cannot be used to create workforce housing, due to regulations limiting their use to very low- and low-income housing. State subsidies to meet goals for workforce housing are not available in Texas as they are in many other states. While Federal and state funding programs can continue to support very low- and low-income housing in Austin, new funding strategies and sources are necessary to support development of affordable housing for workforce housing, particularly as part of income-diverse developments.
- In many cities across the country, funds available from public entities are leveraged by non-profit community developers, supported by a network of housing intermediary funds and financing through banks meeting Community Reinvestment Act (CRA) obligations. However,

a large-scale non-profit network to finance affordable housing is not present in Austin. For example, Enterprise Community Partners, Community Preservation Corporation, and Local Initiatives Support Corporation (LISC) – which feature prominently in affordable housing development in cities nationwide – do not maintain a presence in Austin.

- There is a lack of reliable, on-going gap financing sources at the City level, which makes the City less attractive to larger nationwide non-profit developers and intermediaries, as well as presents an obstacle to local affordable housing developers. This condition makes it unattractive to national non-profit organizations seeking to dedicate human and financial resources within a city, and slows the development and financing process for smaller, local affordable housing developers.

There are notable exceptions in the case of local organizations that have linkages to larger national organizations. Foundation Communities – a large non-profit affordable housing developer – for example, is a charter member of NeighborWorks America, and is able to access that organization's revolving loan fund for up to \$500,000 of gap financing for a given project.³⁷ Corporation for Supportive Housing has also recently entered the Austin affordable housing market, which is a promising development.

³⁷ Interview with Jennifer Hicks, Director of Housing Finance, Foundation Communities.

Waiving development fees and exempting property taxes reduce the operating cost burden on affordable housing units.

Public Fees: Austin implemented the S.M.A.R.T. Housing Program in 2000 in order to encourage creation of affordable housing by reducing the costs of government fees and lengthy approval processes. The desired development fulfills the City's goals – housing that is Safe, Mixed-income, Accessible, Reasonably-priced, and/or Transit-oriented. The fees waived by the program average \$1,220 per unit.³⁸ However, even multifamily developments built with S.M.A.R.T. Housing benefits pay significant fees to the City, often including:

- Drainage
- Electrical meters
- Street lighting
- Water meters
- Sewer taps
- Street closure fee
- License agreements
- Austin energy fees.³⁹

Any affordable housing units created with support from AHFC or NHCD must meet S.M.A.R.T. Housing standards.

Property Taxes: Residential property owners in Austin are subject to annual property taxes of 2.1531% of the full appraised market value of the property, of which 0.4034% of the property value is paid directly to the City of Austin. On average, this produces an annual tax burden of \$8,000 for a new unit in a high-rise building Downtown, of which roughly \$1,500 is paid to the City of Austin.

Except for HACA-owned units, nearly all affordable units are subject to some property taxes. Units developed by a certified Community Housing Development Organization receive partial tax abatements, and properties developed on land leased from AHFC receive full tax abatements.

Austin currently provides tax abatements to new developments on a project-by-project basis. AHFC has entered into ground leases for a subset of new affordable housing developments in Austin to pass through AHFC's full property tax-exempt status, including Villas on Sixth, Spring Terrace, Oak Springs Villas, Chestnut Corner, and properties on Neal Street. For example, the Robertson Hill project was developed with 10% of units affordable to households with incomes at or below 80% of MFI for rentals, using an economic development grant as a developer incentive. AHFC ownership ensures permanent affordability, increased cash flows through tax-exemptions, and very low-income housing in the urban core.

³⁸ Austin NHCD.

³⁹ *The Affordable Housing Incentives Task Force Report*, February 20, 2007.

As Downtown continues to grow, the City can implement a policy framework to redirect a portion of growth into affordable housing.

Current policy is largely consistent with the stage of growth of Downtown. Most cities engage in direct financing of affordable housing to ensure that units for low-income and hard-to-serve residents are created. Austin's affordable housing policies – focused on use of subsidized public land, federal entitlement funds, General Obligation bond funding, limited economic development grants, and other direct subsidy sources – are consistent with its stage of growth.

Austin must also prepare for the next stage of growth in its housing market. In cities further advanced in Downtown growth than Austin, market conditions support policies that leverage substantial resources from private development, including density bonus incentives, fees, inclusionary housing, and exactions. As development becomes more consistently lucrative in later stages of growth, cities are also able to marshal resources from private, non-profit, and public actors to "gap finance" the development of lower-income housing.

A strategy for affordable housing Downtown will take advantage of short-term opportunities while putting in place a system of policies to leverage market activity in the long-term as Downtown grows and stabilizes.

RECOMMENDATIONS

Austin should set a policy framework for Downtown housing:

- Set goals and targets, and
- Introduce short-term and long-term policy consistent with market conditions and available resources.

The recommended policy framework contains three sections:

1. *Goals:* Identifies geographic priority areas for affordable housing, establishes goals for creating and/or preserving units by socioeconomic category, sets targets through 2020, and where possible, assesses the cost of achieving those targets.
2. *Short-Term Policies:* Identifies short-term (5-year) policies that Austin should pursue to incentivize and fund targets, given current conditions Downtown.
3. *Long-Term Policy Framework:* Recommends regulatory and program initiatives that will support an affordable housing financing infrastructure to leverage private market activity as the market grows in the long-term.

Recommended Policy Framework for Downtown Austin Housing

- Set goals for Downtown and a surrounding "Housing Fee Investment Area".
- Create workforce and supportive housing Downtown.
- Create very-low and low-income housing in the Housing Fee Investment Area - and Downtown, where feasible.
- Use short-term policy tools:
 - Leverage public land.
 - Acquire foreclosed properties.
 - Explore opportunities to buy down existing market-rate units for long-term affordability.
 - Subsidize low-income housing.
- Create a long-term system:
 - Structure and capitalize a system for financing housing.

Goals and Targets

Set housing goals for Downtown and its surrounding area.

Downtown and the Housing Fee Investment Area should provide housing opportunities for an array of Austin's households. These opportunities should be accessible by transit and proximate to appropriate amenities. A predictable, transparent system of regulations and incentives should be established and public-private partnerships created to encourage greater income diversity than currently exists Downtown.

Policy goals should be established for the Downtown and for the Neighborhood Planning areas within a two-mile radius of Downtown's center. In these neighborhoods, transit is relatively accessible and will continue to develop as regional and local transportation projects are constructed. These neighborhoods were designated as a "Downtown Impact Area" by the Interim Density Bonus Ordinance, therefore, goals are suggested for this now re-named area as well as the Downtown proper.

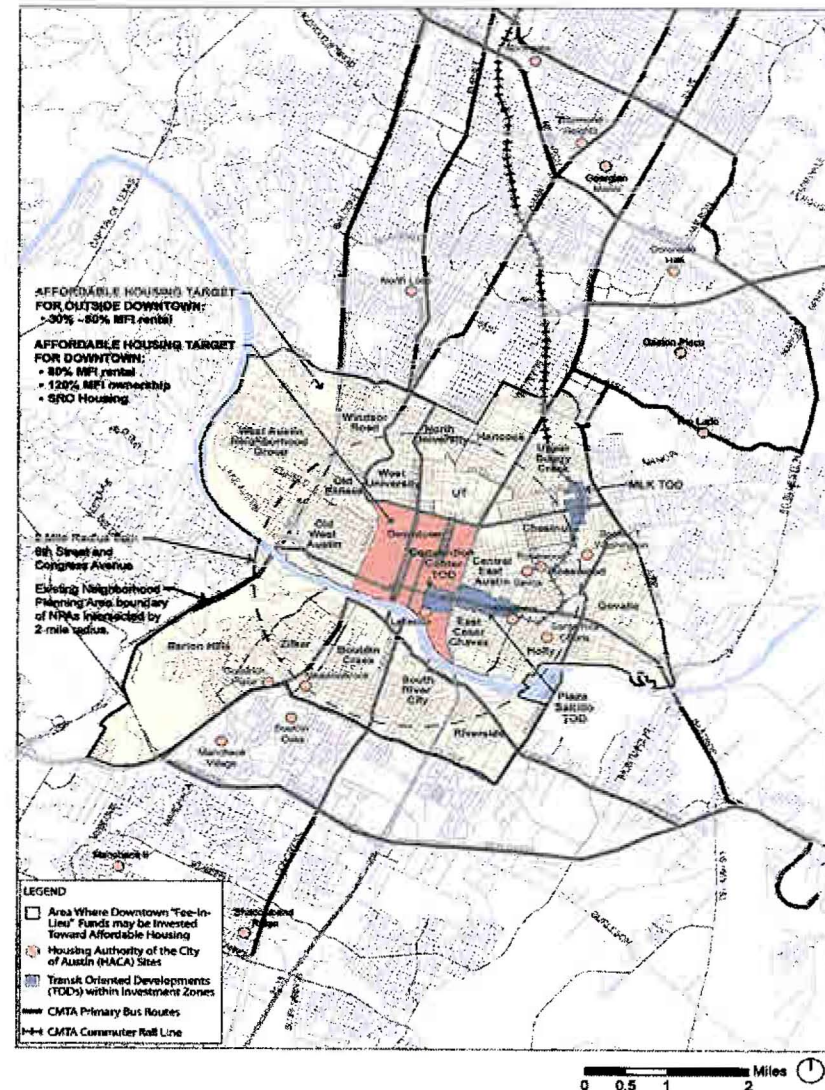
Downtown boundaries:

- IH 35 to Lamar Boulevard
- MLK Boulevard to Lady Bird Lake

Housing Fee Investment Area boundaries:

- Neighborhood Planning areas for which any land area falls within a two-mile radius of Sixth Street and Congress Avenue

Map of Housing Fee Investment Area



Goals in the Downtown should address workforce housing (80-120% of MFI) and supportive housing for special needs populations. Workforce housing will provide desired income diversity in the increasingly dense core, while making efficient use of scarce housing subsidy resources in a high cost environment. Though amenities for families are available in the downtown, the relative level of amenities within the neighborhoods in the Housing Fee Investment Area is more suitable to a wider range of demographics and can, therefore, attract a greater number of affordable units for families.

The City should also increase the supply of permanent, supportive housing opportunities Downtown to accommodate hard-to-serve populations, particularly the chronically homeless. Permanent supportive and transitional housing are cost-effective means of providing housing for various hard-to-house populations. Average daily public costs to provide supportive housing are far below those of the most common alternatives for these individuals, including emergency shelters, hospitals, mental health facilities, and prisons.⁴⁰ And, although community objections can present obstacles to developing new supportive housing, research demonstrates that property surrounding new developments actually experience strong and consistent price appreciation compared to similar properties in other parts of a neighborhood, due to the quality of new development.⁴¹ Supportive housing can be a win-win situation for individuals in need and for the stability of the community.

Housing in the neighborhoods immediately adjacent to the Downtown (Housing Fee Investment Area) should address the needs of very low- and low-income households (0- 80% of MFI). The relative lower cost of creating affordable housing outside Downtown, coupled with the transit accessibility being cultivated around Downtown, makes the Housing Fee Investment Area a fiscally-prudent alternative to meeting all of the affordable housing goals within the Downtown proper. These Downtown-adjacent neighborhoods are relatively accessible by transit and could house many Downtown workers in a cost effective manner. The City should focus resources to create more units at deeper levels of affordability here.

This section establishes targets for creating new affordable units in the Downtown and Housing Fee Investment Area, and projects the costs that would be associated with each target, if the City were to provide subsidy to fill the entire funding gap. This gap may be partially filled by a variety of existing Federal, State, local and/or private sources, but the estimate provides a starting point for the City to consider the funding gap, the impact of existing subsidy and incentive programs, and the recommendations for new initiatives presented later in this report.

⁴⁰ *The Plan to End Chronic Homelessness in Austin/Travis County*, The City of Austin Affordable Housing Bond Committee, September 26, 2005.

⁴¹ *The Impact of Supportive Housing on Surrounding Neighborhoods: Evidence from New York City*, Furman Center for Real Estate and Urban Policy, November 2008.

Prioritize workforce and supportive housing in Downtown.

Workforce Housing

Strategy: Support development of affordable rental and ownership homes in Downtown for Austin's workforce.

Target: 10% of new housing created in the CBD by 2020 should be affordable to Austin's workforce, with:

- Rental units affordable to families earning 80% of MFI, and
- Ownership units affordable to families earning 120% of MFI.

The Mayor set a goal of 25,000 Downtown residents by 2020, which would require 14,400 units at current Downtown household sizes. Ten percent of this target for workforce housing would be 1,440 affordable units. A target of one in ten affordable units is also consistent with the on-site, interim density bonus requirement established by Austin for Downtown and reflects commitments to affordability by growing cities across the country. It takes into account Austin's desire to create an array of public benefits for the Downtown.

The target reflects an even split between ownership and rental units, consistent with the current distribution of tenure in Austin's Downtown. The Housing Market Survey for Austin found that many renters did not express an interest in owning their own home, suggesting a continued need for rental housing.

Median family income level targets are consistent with workforce income definitions used by HUD and were the consensus targets of the Austin Housing Incentive Task Force.

Cost: The gross overall cost of directly subsidizing this number of units (1,440) would be about \$175 million. This gross cost would be met by layering a number of programs, including economic development grants, interest rate subsidies, fee waivers, density bonus fees, and General Obligation bond proceeds.

The calculation assumes the current tenure mix between rental and ownership units and is based on the gross subsidy cost.

Subsequent recommendations provide opportunities to subsidize units at a lower cost to the City. This "gross cost calculation" is intended to provide a maximum cost estimate for future policy analysis.

Projected Maximum Cost: Workforce Housing Target

	New Units by 2020	Subsidy Per Unit	Total Subsidy
Rental	720	\$90,000	\$65 million
Ownership	720	\$150,000	\$110 million
TOTAL	1,440		\$175 million

Subsidy per unit determined based on HR&A study of market conditions and Austin demographics, 2007-2009.

Prioritize workforce and supportive housing in the CBD.

Supportive Housing

Strategy: Support development of supportive housing for hard-to-serve populations in the downtown, including homeless and elderly populations and populations with health-related needs.

Target: Double the number of privately-operated supportive housing units in the City.⁴² A total of 170 units should be created in the Downtown. Given the competition for resources and the complexity of delivering this product, we believe this goal is aggressive but achievable.

Cost: The subsidy required to fully fund development of each supportive housing unit is substantially higher than for each unit of rental housing, since supportive housing projects typically cannot support a permanent mortgage, due to very low rents and high ongoing costs of providing services to residents.

This gross cost of approximately \$34 million can be met using traditional federal, state, and local subsidy programs, as well as additional layers of funding to meet the unique challenges of creating supportive housing.

Subsequent recommendations provide opportunities to subsidize units at a lower cost to the City. This “gross cost calculation” is intended to provide a maximum cost estimate for future policy analysis.

A portion of the development subsidy cost per unit may be re-captured through public operating savings of a supportive housing unit versus public services for a chronically homeless person with mental illness, estimated at \$22,000 per person, per year⁴³ – or nearly \$4 million per year for the proposed 170 new units of supportive housing.

Projected Cost: Supportive Housing Target

	New Units in 5 Years	Subsidy Per Unit	Total Subsidy
Supportive Housing Units	170	\$200,000	\$34 million

Subsidy per unit determined based on HR&A study of market conditions and Austin demographics, 2007-2009.

⁴² *Ending Chronic Homelessness*. National Community Development Association, 2007.

⁴³ *Ending Chronic Homelessness*. National Community Development Association, 2007.

Prioritize low-income housing in the Housing Fee Investment Area.

Very Low- and Low-Income Housing

Strategy: Use existing and new Federal, State and local funding sources to create new rental and homeownership opportunities for very low- and low-income households in the Housing Fee Investment Area.

Target: Produce very low- and low-income units in proportion to Downtown and the Housing Fee Investment Area's share of Austin's housing stock.

- Rental units affordable to families earning at or below 60% of MFI.
- Ownership units affordable to families earning at or below 80% of MFI.

The Downtown and the Housing Fee Investment Area contain roughly one-fifth of Austin's housing stock. As Austin sets its goals for creation and preservation of low-income housing units, it should allocate a unit goal to the Housing Fee Investment Area in relation to its proportion of the city's housing stock.

Cost: The cost of a direct subsidy would be \$60,000 for a rental unit outside Downtown at 60% of MFI, and \$125,000 for an ownership unit at 80% of MFI.

This gross subsidy cost will be filled using traditional public funding sources, which can be supplemented as new programs are made available.

Subsequent recommendations provide opportunities to subsidize units at a lower cost to the City. This "gross cost calculation" is intended to provide a maximum cost estimate for future policy analysis.

Projected Maximum Cost: Low-Income Housing Target

	Subsidy Per Unit
Low-Income Rental Units	\$60,000
Low-Income Ownership Units	\$125,000

Subsidy per unit determined based on HR&A study of market conditions and Austin demographics, 2007-2009.

Initiatives

Austin will achieve the goals and the related targets outlined in the previous section by putting a robust set of policies in place that will subsidize, incentivize and exact benefits from the development process as Downtown grows.

The initiatives that follow are separated into:

- **Short-Term Initiatives** that may be achieved in current conditions, most of which involve direct subsidy of affordable housing development; and
- **Long-Term Initiatives** that provide a framework of support and incentives, and take advantage of changing market conditions, to provide a consistent policy framework for affordable housing.

Short-Term Initiatives	
I.	Leverage public land, where feasible.
II.	Acquire foreclosed properties.
III.	Subsidize low-income housing.
IV.	Buy down existing market-rate units.
V.	Create model SRO in Downtown.
Long-Term Framework	
Create comprehensive, transparent gap financing infrastructure	
I.	Organizational structure <ul style="list-style-type: none"> • Create or adapt Downtown Workforce Housing Corporation. • Acquire CDFI status, or associate with a separate CDFI.
II.	Regulations and programs <ul style="list-style-type: none"> • Create revolving loan fund. • Expand S.M.A.R.T. Housing fee waivers. • Implement permanent density bonus program. • Introduce economic development grant policy.
III.	Sources of Funds <ul style="list-style-type: none"> • Private Sources • Fees from Private Development

Short-Term Initiatives

Initiatives: Limited, Short-Term

Leverage public land, where feasible.

The City can use public land in the Downtown to produce affordable housing. Providing free or discounted public land in exchange for creation of workforce housing is a commonly-used incentive; reducing land cost can encourage creation of mixed-income housing units in projects on publicly-owned land.

This review concluded that 18% of publicly-owned land Downtown has short-term development potential. If all of these parcels were developed as residential, and 20% of the units were set-aside for workforce housing, approximately 270 units could be created.

Note, however, that Downtown's public land is held by City, State and County entities with a range of public goals for land holdings, requiring an inter-governmental strategy to determine an optimal disposition plan. Approximately one-quarter of the publicly-owned land with short-term development potential is City-owned, compared to nearly three-quarters that is owned by the State, 18% is owned by Travis County, and 8% is Federally-owned.

18% of public land Downtown (38 acres) has short-term development potential, representing 270 units if developed as housing.

Short-Term Initiatives

Housing Authority-controlled sites present additional opportunities for partnership.

There is potential to increase density and create more than 3,500 additional units on the eight HACA-controlled properties in the Downtown and the Housing Fee Investment Area alone.⁴⁴ Moreover, the relative old age of the HACA properties makes them excellent candidates for revitalization as their overall quality deteriorates. The City should partner with HACA to prioritize the intensification of its properties, in order to increase availability and improve quality of affordable housing in and around Downtown. To ensure continuity, any redevelopment or intensification plan should preserve or replace *at least* the number of affordable units currently on the site, and set a target for additional units.

Actions:

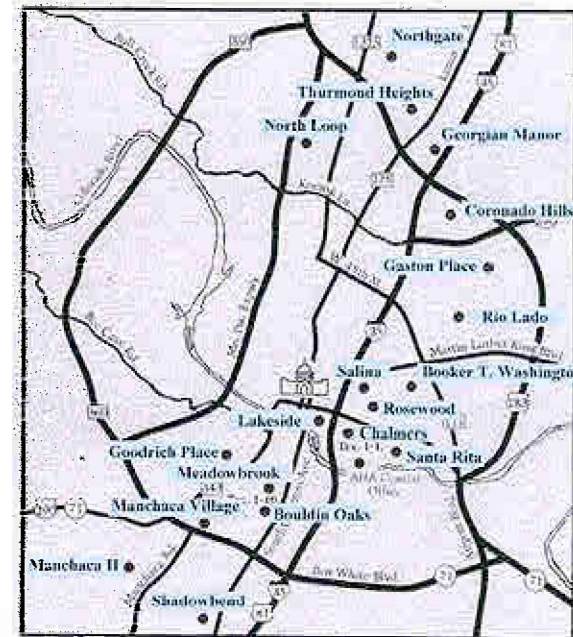
- **Public Land:** Create an intergovernmental working group to inventory and evaluate development plans for publicly-held land Downtown, and include on-site affordable housing targets where feasible.
- **HACA Sites:** Create a HACA-NHCD task force to produce a City-supported intensification strategy for HACA-owned properties in Downtown and the Housing Fee Investment Area.

⁴⁴ ROMA analysis of HACA-owned properties within Downtown/Housing Fee Investment Area.

Intensification of HACA Properties

Community Name	Year Built	Acreage	Existing Units	Total Potential Units Under Current Zoning
Chalmers Court	1939	8.03	158	433
Rosewood Courts	1939	7.27	124	393
Santa Rita Courts	1939	7.14	97	386
Meadowbrook	1952	19.87	160	1,073
Booker T. Washington	1953	22.26	216	1,202
Salina Apartments	1966	1.55	32	84
Lakeside	1967	2.27	164	791
Goodrich Place	1973	4.47	40	161
TOTAL		72.87	991	4,523

HACA Property Map



RECOMMENDED POLICY FRAMEWORK

Short-Term Initiatives

Acquire foreclosed properties.

Although Austin has not seen the level of foreclosures in other parts of the nation, a recent assessment found that nearly one percent of housing units were foreclosed in 2008.⁴⁵ Where FHA foreclosures have taken place, HACA receives a first option to purchase units at a 30% discount. Local governments also have the option to purchase FHA-foreclosed properties for one dollar through HUD's Dollar Homes Program if HUD is unable to sell them for more than six months. The City and HACA should strategically acquire properties through this option and reposition them as permanently affordable units.

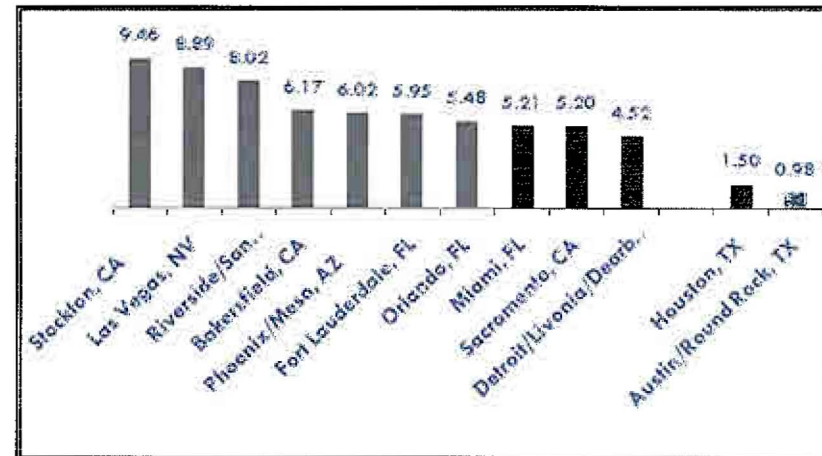
The Federal government recently introduced an additional funding source, the Neighborhood Stabilization Program (NSP), for which Texas and Travis County have received allocations. The City is currently applying for NSP funds to dedicate to the purchase and preservation of foreclosed units as affordable housing, although Austin's funding allocation is expected to be only about \$1 million.

Actions:

- The City should identify neighborhoods with high rates of foreclosure and highest risk of vacancy and instability. These neighborhoods should be targeted for City and HACA investment.
- NSP funds should be allocated consistent with the City's identification of priority at-risk neighborhoods.

⁴⁵ RealtyTrac 2008 Foreclosure Market Report.

Foreclosure Rates, 2008
(as a percentage of households)



Utilize existing City, State and Federal resources to subsidize very low- and low-income housing.

In the short-term, the City should continue to dedicate available public resources, including Federal entitlement funding and its General Obligation Bond proceeds, to subsidizing creation of units for very low- and low-income residents. A wide range of subsidy and financing programs exist to build very low- and low-income housing, although little funding is available for and workforce housing.

Short-Term Initiatives

Explore opportunities to buy down existing market-rate units for long-term affordability.

In addition to incentivizing new dedicated affordable housing development, the City should explore opportunities to create affordable units in existing construction through buy-down of market-rate units. Changing economic conditions may create opportunities for the City to create affordable units in existing developments in a more cost-effective manner or in a way that creates more public value than it could through new construction. The City need not constrain its use of proceeds from private development fees or other sources to new construction, except where required by programmatic regulations.

Support creation of a model SRO development Downtown.

Other cities have successfully integrated special needs housing and social services within their downtowns, demonstrating that social services and special needs housing can be successfully integrated into an urban environment, without stigmatizing or isolating the population being served. The availability of social services in the CBD – the Salvation Army, the City's ARCH shelter, Caritas and the Downtown Cluster of Churches provide food, shelter and support services in close proximity to one another – presents an opportunity to most efficiently serve the Austin's chronically homeless and other vulnerable populations.

A partnership with a non-profit organization, like the partnership that the City has cultivated with Foundation Communities in recent years, can demonstrate the potential for success of supportive housing Downtown, as well as ways to develop units at a public cost below the gross subsidy cost cited above. For example, Foundation Communities has been able to leverage private contributions for the three

developments it has built in Austin since 2003 – Garden Terrace, Spring Terrace, and Skyline Terrace – to reduce public development subsidies to \$20,000 or less.⁴⁶

The introduction of the Corporation for Supportive Housing (CSH) into the Austin market presents an additional promising partnership opportunity.

San Francisco: Delancey Street Foundation



In San Francisco, the Delancey Street Foundation constructed a 200-unit mid-rise complex for the rehabilitation of ex-convicts and drug offenders in the middle of a newly redeveloped neighborhood on the waterfront. The facility provides job training, and features a highly successful restaurant staffed by residents.

San Diego: SRO Housing



San Diego has been very successful in providing affordable Single Room Occupancy (SRO) housing in rehabilitated buildings and in new construction. These projects include a mix of more than 700 market-rate and subsidized units, oriented to the transient and workforce populations.

⁴⁶ *Ending Chronic Homelessness*. National Community Development Association, 2007.

Long-Term Initiatives

Initiatives: Aggressive, Long-Term

Organization of Long-Term Policy Framework

Downtown workforce housing can be produced through a combination of regulation and incentive programs that rely upon the commitment of City funding and resources to leverage private market growth. Development of supportive housing in the long-term will require additional subsidy sources to fund deeper levels of affordability and to ensure on-going service provision.

Structure and capitalize a system for financing units Downtown and in the Downtown Impact Area.

As economic conditions recover and development capital becomes available, developers can be incentivized to produce affordable units through public intervention in the development process in the form of regulations and programs that offset lower revenues from affordable units.

Non-profit affordable housing developers need a consistent, systematic set of funding sources to provide publicly-financed affordable housing units at a significant scale. A system to support targeted affordable units would consist of a number of components, including: a capitalized public entity to provide public financing, funding from private and non-profit supporters of Downtown housing goals and a robust non-profit intermediary and developer presence supported by this public infrastructure.

Austin should create a comprehensive, transparent system to support workforce housing in the Downtown and very low- and low-income housing in the Housing Fee Investment Area. The regulations and programs in this system are described below, based on examples of effective "gap financing" systems elsewhere and Austin's current conditions.

Incentive Affects...	Long-Term Programs and Regulations
Cost of Capital	Revolving Loan Fund
Development Cost	Expanded S.M.A.R.T. Housing Fee Waivers Direct Subsidy
Entitlements	Density Bonus
Operating Margin	Economic Development Grants

Long-Term Initiatives

Create or adapt a Downtown Workforce Housing Corporation.

In addition to introducing or modifying existing regulations and subsidizing units through Austin's Housing Finance Corporation, Austin should create or adapt a non-profit Downtown Workforce Housing Corporation that can combine public funds with private and non-profit funds to implement workforce affordability programs Downtown. A Corporation provides a centralized structure to provide funding, while its non-profit status enables collection and distribution of revenues from both public and private sources.

The Corporation could be created as a community development financial institution (CDFI), which is eligible for grants from the Federal CDFI Fund, and which can provide valuable support for the entity. A non-profit Corporation that is also a CDFI, or that has a CDFI subsidiary, would be eligible to receive CDFI funding streams.

Actions:

- Create or adapt a Downtown Workforce Housing Corporation to provide centralized funding and administration for Austin's workforce housing programs Downtown, described below.
- Capitalize the Corporation through sources of funding described below.
- Consider whether to pursue CDFI status for a Downtown Workforce Housing Corporation.
- Continue using AHFC to subsidize very low- and low-income housing.

Development Funding:

- Revolving Loan Fund
- Fee Waivers
- Economic Development Grants

Long-Term Initiatives

Programs and Regulations

Reduce cost of capital: provide low-cost financing through a Revolving Loan Fund.

The Austin Housing Finance Corporation (AHFC) has the ability to issue tax-exempt bonds to provide financing for non-profit and for-profit affordable housing development projects, through the 501(c)(3) Bond and Multifamily Rental Bond Programs. However, both programs face challenges to meet the goals outlined above:

- The funding stream is not consistent and reliable, as AHFC must access credit markets regularly to provide this financing;
- Financing can only be used to develop units that are affordable to very low- and low-income households.

A revolving loan fund for workforce housing could provide a stable source of gap financing for affordable housing at a range of income levels. The City could capitalize the fund with both public and private sources, including public low-interest bond funding and private funding from conventional banks. These funding streams would enable the City to target income levels and geographic areas and to provide financing for projects that are ineligible for Federal or State programs. The structure provides a stable, self-sustaining source of financing over a longer term than similarly capitalized subsidy programs – such as the GO Bond program.

Actions:

- Create a revolving loan fund administered by the to-be-created Downtown Workforce Housing Corporation.
- Capitalize the fund with public sources, including density bonus proceeds and public low-interest bond funding.
- Seek philanthropic and other private participation for additional funding sources.

Fort Worth: Housing Developer Fund

The Developer Fund is a component of the Fort Worth Housing Trust Fund (FWHTF), administered by the Fort Worth Housing Finance Corporation. The Fund was created using General Funds, as well as leveraging CDBG and HOME grant funds, in order for the Housing Developer Fund component to target households earning 81-120% of MFI that cannot be addressed using Federal funds. Projects must be in the Central City or in another specially targeted area. Up to \$2 million is available for a term of 24 months for multifamily housing development.

Columbus: The Housing Trust

The Housing Trust is a private 501(c)(3) organization that was created as a result of the City of Columbus' efforts to increase affordable housing opportunity in the City. The Trust manages a revolving loan fund in Columbus and Franklin County that provides financing for acquisition and construction, as well as gap and bridge financing. More than \$17 million have been committed to affordable housing, creating more than 1,700 homes and leveraging \$11.50 in private investment for every dollar in financing provided by the Trust.

Long-Term Initiatives

Reduce development cost: expand public fees waived in exchange for affordable housing.

To increase the supply of affordable housing, Austin should not require that subsidized units pay charges that are normally assessed on real property for community benefits, such as drainage, street lighting, etc. These charges add materially to the cost of construction and operations, increasing the need for one-time and ongoing subsidies. The City should adopt the recommendation of the Austin Housing Incentive Task Force and waive fees for affordable housing, including drainage, electrical meters, street lighting, water meters, sewer taps, street closure fees, license agreements, and Austin energy fees.

Actions:

- Coordinate across public agencies to identify opportunities to waive fees for affordable housing.

Austin Development Fees that Could Be Exempted Under Expanded S.M.A.R.T. Housing Program

- Drainage
- Electrical meters
- Street lighting
- Water meters
- Sewer taps
- Street closure fee
- License agreements
- Austin Energy fees

Long-Term Initiatives

Increase entitlements: implement a permanent density bonus program.

A permanent density bonus ordinance should replace the current statute and CURE should be repealed. This system for additional density can translate current market values for Downtown housing into on-site affordable housing units, or generate fees for affordable housing off-site.

The Downtown Density Bonus Program report (ROMA and HR&A draft report, 2009) provides additional detail related to the implementation of the proposed permanent density bonus.

Actions:

- Implement a permanent Downtown Density Bonus Program, as recommended in the Density Bonus report.
- Dedicate in-lieu housing fees collected from the density bonus fee to capitalize a workforce housing financing system in the Downtown.

Potential Workforce Housing Unit Production Downtown

	Per Unit Subsidy Required	Number of Potential Units
Ownership, Downtown High-Rise	\$225,000	133
OR		
Ownership, Downtown Mid-Rise	\$150,000	200
OR		
Rental, Downtown High-Rise	\$110,000	272
OR		
Rental, Downtown Mid-Rise	\$90,000	333

Note: The table describes the outcome if density bonus proceeds over 15 years are used to create workforce housing Downtown. Findings are mutually exclusive, i.e., density bonus proceeds could fund only one of the above.

Long-Term Initiatives

Increase operating margins: reduce the property tax burden on affordable housing units.

Economic development grants for affordable units reduce operating costs, enabling the private market to maximize the creation of affordable units. Such an incentive can save four dollars per \$1,000 of market value each year for affordable units. Local governments in Texas can enter into agreements with property owners to abate local *ad valorem* taxes on real and personal property for up to ten years.

Actions:

- Provide tax abatements or economic development grants as-of-right to workforce housing units Downtown.

Columbus: Downtown Housing Incentive

The base program provides an as-of-right 10-year 75% tax abatement for new residential development downtown. The abatement is also applicable to the commercial portion of a project if it does not exceed 1/3 of the gross square footage of the structure. The developer can earn larger tax abatements and/or longer terms for the creation of units that meet other criteria, notably affordable housing and student housing. For example, if affordable housing is included in the development, the property can receive an as-of-right 100% tax abatement for a term ranging from 10 years (for renovation of 1 - 2 units) to 15 years (for new construction).

New York City: 421-a Affordable Housing

The 421-a Affordable Housing Program provides a 10 - 25 year partial tax abatement on the first \$65,000 in assessed value per unit for new developments in targeted areas of the city that provides at least 20% affordable units on-site. Rental units must remain affordable for 35 years, while for-sale units must only be affordable at the initial sale. The 421-a tax abatement program has evolved over several decades in New York City from a tool to incentive development to a tool that leverages the rapidly growing strength of the market to achieve goals for creating public goods, including affordable housing.

Long-Term Initiatives

Long-Term Funding Sources

Creating workforce housing requires commitment of substantial local public resources. The programs above should be funded using a variety of public and private sources.

Available public resources in Austin for workforce housing Downtown are more limited than for low-income and very low-income housing. Federal entitlement funding, including Low Income Housing Tax Credits, HOME, and CDBG funding, is limited to creation and/or preservation of low income units, and Austin has seen substantial calls on its General Obligation Bond funding for low-income units.

The State of Texas does not make additional funds available to finance workforce housing. The implication of the high cost and limited availability of current funding sources is that a substantial dedication of public resources would be required to meet create workforce housing Downtown.

Austin should pursue a number of funding sources to seed its workforce housing development programs that it has not traditionally tapped. These include both public and private funding sources.

Funding Sources for Workforce Housing

- Public sources
 - Federal CDFI Fund
 - Additional bond financing
- Private sources
 - Private and foundation partners
 - Conventional banks
 - Intermediaries
- Fees from private development
 - Density bonus housing in-lieu fees

Long-Term Initiatives

Public sources

Federal CDFI Fund

A CDFI is a specialized financial institution with a community focus. A CDFI can provide an alternative source of gap financing through low-interest financing and/or funds for projects that may be more difficult to finance through conventional banks. Although any well-capitalized non-profit lender could serve in this capacity, CDFIs are eligible for special grants from the Federal CDFI Fund, which can provide valuable support for the entity. A non-profit Downtown Workforce Housing Corporation that is also a CDFI, or that has a CDFI subsidiary, would be eligible to receive these funding streams. The Federal CDFI Fund has been a successful vehicle for providing affordable housing and other community development funding, while leveraging substantial additional investment - \$27 in non-Federal investment for every dollar in CDFI Fund grants.⁴⁷

PeopleTrust, a 501(c)(3) subsidiary of PeopleFund, is not presently a CDFI but could be adapted to serve as one, enabling it to channel Federal funding.

Actions:

- Create or adapt a non-profit CDFI to support workforce housing and leverage investment from other sources.
- Gain CDFI status for the Downtown Workforce Housing Corporation or develop a CDFI subsidiary of the Corporation.

Connecticut CDFI Alliance

The Connecticut CDFI Alliance administers the Affordable Housing Gap Financing Fund, which provides a flexible financing source for affordable housing development throughout the state. The Fund prioritizes loans to workforce housing and affordable housing in typically high cost areas. The Alliance is a non-profit collaboration of 7 CDFIs in the state, and was established to provide patient capital to promote affordable and special needs housing development.

⁴⁷ "CDFI Grants May Get Boost," *Affordable Housing Finance*, Oct 2007.

Long-Term Initiatives

Additional bond financing

In 2006, Austin issued a General Obligation Bond for \$55 million. Affordable housing developers and City officials agree that the program has been widely successful. Nearly \$16 million in funds have been committed and are projected to create 435 units of affordable housing – a subsidy of about \$36,000 per affordable unit – while leveraging approximately two dollars in private funds for every dollar in GO Bond funding. Units created with the funding will be affordable to households with incomes at or below 50% of MFI for rentals and 80% of MFI for homeownership, although the program has targeted units at the lower end of the MFI scale. (See Appendix A for full list of approved GO Bond projects.)

Affordable housing developers indicate that the Program has provided a consistent, easy-to-access form of subsidy, but that future funding is needed to ensure that gap financing remains readily available. Greater certainty regarding the availability of funding for acquisition and development would allow affordable housing developers, especially non-profits, to be better positioned to take on additional projects with fewer concerns about the adequacy of their cash flows.

Capitalizing a public fund for workforce housing could require GO Bond issuance, particularly during the early years before substantial density bonus funds and private funds are available.

Actions:

- Issue additional GO Bonds to provide public seed capital for workforce housing gap financing, particularly in early years.

Long-Term Initiatives

Private sources

The Downtown Workforce Housing Corporation would bring together local banks with CRA obligations, Downtown corporations seeking to ensure workforce housing, foundations and other non-profit entities with funding sources, to create a pooled capital fund for Downtown.

Seek private and foundation partners.

There are many private philanthropic funders in Austin, some of which currently provide support for affordable housing development. Foundation Communities, for example, accesses funding from various local private funders, particularly for its supportive housing development projects, including:

- Austin Community Foundation
- Citi Foundation
- The Enterprise Foundation
- Home Depot Foundation
- Kresge Foundation
- Stillwater Foundation
- Topfer Family Foundation

The City should engage private funders in discussions surrounding the importance of affordable housing and encourage commitment of funds to affordable housing development. Foundations and other private funders have typically played a variety of roles in affordable housing in other cities, including:

- Providing funding to non-profit developers to lower public subsidy required
- Contributing to Housing Trust Fund
- Contributing to Revolving Loan Fund

In many cities that successfully produce workforce housing Downtown, a stable commitment from Downtown employers is a key source of financing. Though Austin's businesses are relatively diffuse throughout the City and County, the Downtown corporate presence can be leveraged as part of a larger group of financing sources. Over the long-term as commercial development occurs Downtown, this is a funding source that can expand.

Downtown Austin has 72 businesses, including nearly 40 with 100 or more employees.

Columbus Housing Equity and Investment Fund

As part of a broader effort to revitalize downtown Columbus, OH, the Columbus Downtown Development Corporation worked with a group of private and non-profit investors to create a Housing Equity and Investment Fund. The fund's role would be to create and attract investment to stimulate the development of downtown housing. It brought together at-risk private capital from banks and other investors with more patient capital from foundations, downtown corporations, civic leaders and philanthropists who are willing to accept a lower return (1% or less) in exchange for public benefits. The fund was incorporated as a separate LLC but managed by the Columbus Downtown Development Corporation.

Long-Term Initiatives

Engage banks with CRA obligations.

The Community Reinvestment Act of 1977 provides mechanisms to hold banks accountable to provide financing and banking services to their local communities and to support revitalization efforts.

Non-profit and for-profit developers access gap financing, permanent loans, and other financial support from conventional banks in Austin, including Wachovia, Washington Mutual and other national and regional banks. Although there is a sense that Austin banks have adequate capacity to fund existing levels of affordable housing development, banks should be engaged in the policy process as production is ramped up.

Encourage development of an intermediary system.

The large national non-profit affordable housing intermediaries provide a wide range of vital products and services to local affordable housing developers, including pre-development lending, permanent financing, syndicated Low-Income Housing and New Markets Tax Credits, technical assistance and partnerships with both conventional and community-focused banks.

Enterprise Community Partners had a presence in Austin, but left the city within the last two years. Since the largest intermediaries typically do not maintain a presence in the same cities, in most cases, the Local Initiatives Support Corporation (LISC) did not maintain an office in Austin, although the organization is active in Houston.

The lack of reliable on-going sources of financing is a disincentive for intermediaries to establish a substantial presence in Austin.

A presence in Austin of LISC or a similar intermediary would provide both access to additional financing and technical assistance for non-profit developers. LISC in particular has recently launched initiatives supporting workforce housing as part of an increasing focus on sustainable communities. Houston LISC officials contacted by HR&A suggested that a discussion regarding an Austin presence may be entertained in the second half of 2009.

Enterprise Community Partners

Enterprise Community Partners is one of the largest affordable housing intermediary organizations in the US. Through local offices across the country, Enterprise provides capital and technical support for affordable housing development. In Columbus, OH, for example, since 2000, Enterprise has provided:

- \$6 million in grants to local community organizations
- \$65 million in LIHTC equity
- \$22 million in NMTC equity

Enterprise has contributed to the creation of more than 2,000 affordable housing units in Columbus in eight years by providing financing, grants, and/or tax credit equity.

Long-Term Initiatives

Density bonus funds

HR&A and ROMA analyzed a series of sites and uses in three districts of Downtown and concluded that a residential density bonus would provide sufficient incremental return to a developer to allow for a portion of that value to fund public benefits, either in the form of limited on-site affordable housing or as a fee-in-lieu to create public goods, including affordable housing.

A supportable fee-in-lieu charge of \$5 per square foot of bonused density in the Northwest, Uptown and Waller Creek districts and \$10 per square foot of bonused density elsewhere in Downtown could produce approximately \$30 million, assuming half of soft sites of a quarter-block or more are developed over the next 15 years and that half of those take advantage of a density bonus averaging a 3.0 FAR.

Density bonus funds could be used to provide seed funding to a system of Downtown workforce housing administered by the Downtown Workforce Housing Corporation.

Actions:

- Dedicate proceeds of a Density Bonus housing fee-in-lieu to gap financing through the Downtown Workforce Housing Corporation.

Long-Term Initiatives

Valuing Programs

The expected gross cost of reaching the affordable housing production targets outlined above - 1,440 units of workforce housing Downtown and 170 units of supportive housing Downtown - is estimated at approximately \$200 million, excluding a proportional allocation of very low- and low-income units in the Housing Fee Investment Area. This is an upper level estimate of the amount of subsidy that would be required to bridge the gap between the market value of those target units and affordable rents or sales prices. Portions of this gap may be filled by for-profit or non-profit developers using traditional federal, state, and local public sources, as well as private sources, especially for very low- and low-income and supportive units. Non-profit developers also continue to build entirely low-income developments using primarily existing financing sources.

However, to the extent that the City aims to create mixed-income, economically-diverse developments and neighborhoods – including low-income, workforce, and market rate units – additional programs aimed at filling the gap between market and affordable rents or sales prices will be required. This layered approach to mixed-income housing development is especially vital for workforce housing and housing in higher income census tracts Downtown, which may not typically be eligible for the deep federal subsidies upon which low-income housing development has traditionally relied.

The following table summarizes relative values of the initiatives outlined above, to provide an order-of-magnitude estimate of the value that a developer can realize from each of the programs.

Initiative	Approximate Value
<u>Short-Term</u>	
Leverage public land Downtown.	\$10 - \$20,000 per unit
Increase density of HACA properties through redevelopment.	\$10 - \$20,000 per unit
Acquire foreclosed properties.	Equal to the per unit gap, from \$65,000 to \$200,000
<u>Long-Term - Regulation</u>	
Expand S.M.A.R.T. Housing fee waivers.	Varies
Capitalize a revolving loan fund.	To be determined based upon magnitude of public investment
Implement permanent density bonus ordinance.	\$20,000 per unit over 15 - 20 years of Downtown density bonus
Create economic development grant program for affordable units.	\$20,000-\$25,000 per affordable unit

Long-Term Initiatives

Leverage public land Downtown.

Land value is estimated at \$10 - \$20 per buildable square foot, based on HR&A's assessment of Downtown land costs. The value of public land offsets the cost of acquiring land for development. This calculation assumes an average unit size of 1,000 square feet.

Increase density of HACA properties through redevelopment.

Land value is estimated at \$10 to \$20 per buildable square foot, based on HR&A's assessment of Downtown land costs. The value of public land offsets the cost of acquiring land for development. This calculation assumes an average unit size of 1,000 square feet.

Acquire foreclosed properties.

Each foreclosed property acquired by HACA or the City offsets the cost of creating a new unit of affordable housing, assuming that the unit was a market-rate unit prior to foreclosure. The value of each unit to closing the financing gap is equal to the gap that would need to be otherwise filled to create a comparable affordable unit.

Implement permanent density bonus.

The ROMA and HR&A Team estimates that Austin could generate approximately \$30 million in funds over a 20 to 30 year period, assuming 50% of developable sites of a quarter-block or more are developed; 50% of those sites use a density bonus of 3.0 FAR; and the entire benefit for these projects is paid as a fee-in-lieu. Assuming the entire target for Downtown – 1,440 affordable units – is achieved, the fee-in-lieu would translate to approximately \$20,000 per affordable unit Downtown.

Expand S.M.A.R.T Housing fee waivers.

The value of expanded fee waivers would be dependent upon which fees a particular project would be subject to in the absence of an expanded S.M.A.R.T. Housing program.

Create economic development grant program.

The value of a tax abatement for the City of Austin property tax is 0.4034%, or \$4.034 per \$1,000 of market value, per year. Over the life of a unit, this translates to \$65 to 75 per \$1,000 of market value. Assuming an average market value of \$325,000 per unit, a tax abatement would provide a value of \$20,000 to 25,000 per unit.

CONCLUSION

Austin policymakers and stakeholders have rightly recognized the importance of a vibrant Downtown with a high quality-of-life for Austin's future. Austin has a unique set of assets to support continued growth and development of Downtown. That dense urban environment will make an increasing significant contribution to the growth and stability of the region, including providing housing affordable to a diverse range of citizens.

The strategy for Downtown housing responds to these goals by establishing the following principles for Downtown housing:

- Downtown's affordable housing policies must be compatible with other key policy goals, including increasing access to mass transit, continued and vibrant music, cultural and retail experiences.
- Downtown and a Housing Fee Investment Area in close proximity should contain a range of housing options, particularly for key Downtown worker groups.
- The City should dedicate substantial public resources to Downtown affordable housing, including funds for direct subsidy, public land and at-risk capital financing sources.
- The government should leverage available funds from other sources, including other levels of government, private and philanthropic funders, banks and non-profit housing intermediaries.
- Resources should be deployed to produce the most targeted units at the least cost, including through regulation and public programs.
- A long-term policy framework is one that will provide organization and structure to these programs, and provide consistent, reliable support for workforce housing Downtown and very low- and low-income housing in the Housing Fee Investment Area.
- An organizational system must be put in place to manage the delivery of complex layers of programs.

Sources and Notes:

Figure 4: *Based on asking prices for four projects in construction*
 Source: *HR&A analysis of Austin market conditions, 2008.*

Figure 5: *Based on asking prices for hypothetical 1,000 SF unit in existing developments; MFI calculation based on two-person household.*
 Source: *HR&A analysis of Austin market conditions, 2008.*

Figure 6: Source: 2007 American Community Survey data.

Figure 7: Source: 2007 American Community Survey data.

Figure 9: Source: *HR&A analysis of data from Downtown Condominium Study, Downtown Austin Alliance, Capitol Market Research.*

Figure 10: Source: *HR&A Analysis of 2007 American Community Survey data.*

Figure 15: Source: *ROMA analysis of eight HACA-owned properties in the Downtown/Housing Fee Investment Area.*

Figure 18: *Based upon housing units with an average of 1,000 square feet per unit.*

Figure 17: Source: *RealtyTrac 2008 Foreclosure Market Report.*

Table 1: Source: *HR&A analysis of 2000 Census data. Downtown Impact Area is approximated as zip codes 78702, 78703, 78704, 78705, 78741, 78746.*

Table 2: Source: *HR&A and ROMA density bonus study of Downtown development three-dimensional form, 2009.*

Table 3: Source: *HR&A study of market conditions and Austin demographics, 2007-2009.*

Table 4: Source: *HR&A study of market conditions and Austin demographics, 2007-2009.*

Interviews and Consultations

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APPENDIX: APPROVED CITY OF AUSTIN GO BOND PROJECTS

Project Name	# of Units	Affordability Level(s)	Affordability Period (years)	Housing Type
Children's HOME Initiative & VLI Unit Expansion @ Crossroads Apartments	14	30% MFI	99	Rental
Sweeney Circle Acquisitions	16	50% MFI	99	Rental
Crisis Respite Center	37	50% MFI	99	Transitional
Blackshear Infill Rental Project	3	50% MFI	99	Rental
Tillery 4-acre Acquisition	21	80% MFI	10	Homeowner
Sendero Hills, Phase IV Subdivision	65	80% MFI	10	Homeowner
Skyline Terrace	100	50% MFI	99	Rental
GNDC-Lydia Alley Flat	1	50% MFI	99	Rental
Stoneridge Apts. Redevelopment	30	50% MFI	40	Rental
The Willows	64	28@30% 32@50%	99	Rental
Expansion of proposed Goodwin Ave. Development	3	65% MFI-owner 50% MFI-rental	99	Homeowner or Rental
St. Louise House Transitional Housing & Supportive Services	24	30% MFI	99	Rental/ Transitional Supportive
Carol's House	1	30% MFI	99	Rental
Blackshear Infill Rental Project	6	1@30% 3@50%	99	Rental
Austin Children's Shelter	28	0% (homeless)	99	Rental/ Transitional Supportive
Sunnymeade Apartments Redevelopment	22	50% MFI	40	Rental
TOTAL APPROVED	435 units			

Source: City of Austin NHCD, February 2009.